TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1727 - HB 1806

February 8, 2020

SUMMARY OF BILL: Requires, beginning July 1, 2020, local government entities not participating in the Tennessee Consolidated Retirement System (TCRS), who fail to fund their pension plan at 100 percent of the actuarially determined contribution (ADC) in any given fiscal year, to fund the pension plan at 100 percent in the subsequent fiscal year, plus the difference in actual funding from the previous fiscal year.

ESTIMATED FISCAL IMPACT:

Increase Local Expenditures –
Exceeds $404,900/FY21-22 and Subsequent Years*

Assumptions:

- The proposed language is applicable only to municipalities, counties, utility districts, school districts, public building authorities, housing authorities, emergency communications districts, and development districts who maintain a pension plan independent of the TCRS.
- Pursuant to Tenn. Code Ann. § 9-3-503 through 9-3-505:
  - An ADC is the annual contribution that incorporates both the normal cost of benefits and the amortization of the pension plan's unfunded accrued liability;
  - An entity not participating in the TCRS is required to fund their pension plan at 100 percent of the ADC annually;
  - Entities not funding their pension plan at 100 percent as of June 30, 2015 are required to increase their contribution a percentage of the difference each year over a maximum of five years until the plan is funded at 100 percent; and
  - Entities unable to meet this annual percentage progression are required to submit a plan of action to the State Treasurer detailing a plan for funding the pension plan at 100 percent by June 30, 2020.
- According to information provided by the Department of Treasury:
  - In each fiscal year from FY14-15 to FY16-17: three entities did not fund their pension plan at 100 percent; and
  - In FY17-18: six entities did not fund their pension plan at 100 percent.
- Based on information provided by the Department of Treasury, in FY17-18:
  - Three entities did not fund their pension plan at 100 percent of the ADC, and had a total deficiency of $110,028;

  - Three entities failed to meet their annual percentage progression for a total progression deficiency of $294,885;
  - Of these six entities, the average annual fund deficiency is $67,486 [($110,028 + $294,885) / 6].
- While the precise number of applicable entities and the extent of fund deficiency in any given fiscal year is unknown, this analysis assumes that at least three applicable entities will fail to fund their pension plan at 100 percent of the ADC each year.
- Under the proposed language, beginning July 1, 2020 (FY20-21), entities which do not fund their pension plan at 100 percent of the ADC in one fiscal year would be required, in the following fiscal year, to fund the plan at 100 percent, and also increase funding to cover the deficiency from the previous year. Therefore, the first year impacted by this legislation will be FY21-22.
- The proposed language will result in a mandatory, recurring increase in local expenditures estimated to exceed $404,916 [($67,486 average deficiency per fiscal year + $67,486 deficiency from previous fiscal year) x 3 deficient entities per year], beginning FY21-22.

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

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